

ILLINOIS COMMERCE COMMISSION

DOCKET NO. 03-0009

(Consolidated With Docket Nos. 02-0798 and 03-0008)

REHEARING REBUTTAL TESTIMONY

OF

GARY S. WEISS

SUBMITTED ON BEHALF

OF

UNION ELECTRIC COMPANY,

d/b/a AmerenUE

February 2004

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7 **UNION ELECTRIC COMPANY,**

8 **d/b/a AmerenUE**

9 **Q. Please state your name and business address.**

10 **A. My name is Gary S. Weiss. My business address is One Ameren Plaza,**
11 1901 Chouteau Avenue, St. Louis, Missouri 63103.

12 **Q. By whom are you employed and in what position?**

13 **A. I am employed by Ameren Services Company as Director Regulatory**
14 Accounting and Depreciation in the Controllers' Function.

15 **Q. Are you the same Gary S. Weiss who submitted Rehearing Testimony in**
16 **this Docket?**

17 **A. Yes. I submitted rehearing testimony on January 9, 2004 marked as**
18 AmerenUE Exhibit No. 35.0. My qualifications and experience are included with the
19 rehearing testimony and marked as AmerenUE Exhibit No. 35.1.

20 **Q. What is the scope of this rehearing?**

21 **A. The scope of the hearing was addressed during a status hearing held in this**
22 matter on December 18, 2003:

23 “Mr. Clark: I would just like to make sure that the scope of the
24 rehearing is in the record. Is it in the record from the earlier part of
25 our discussion today for the rehearing order?

26 Judge Albers: Well, I’ll put it to you this way; when the Commission
27 granted rehearing, the questions that the Commission granted
28 rehearing on is by what amount does UE’s post-test year capital
29 additions exceed the increases in UE’s accumulated depreciation as of
30 November 27th, 2003. We had discussed previously whether or not to
31 use actual numbers looking at what transpired between November 27th,
32 2002 and November 27th, 2003, or should we simply rely on whatever
33 forecasted or projected numbers were used when we were considering
34 the testimony and engaging in the hearings that occurred in the initial
35 phase of this proceeding, and we concluded that we should use actual
36 numbers as opposed to those that were initially forecasted in the initial
37 phase of this proceeding.” (Emphasis Added)

38
39 Page 19, Line 9 through Page 20, Line 6 of the transcript.

40 **Q. Why have you addressed the scope of the rehearing at this juncture of the**
41 **proceeding?**

42 **A.** As I explain below in my rebuttal to the testimonies of the Staff and Attorney
43 General, certain positions they have taken are beyond the scope of the rehearing, as I
44 understand the matter. As I will explain, these arguments and positions work a severe
45 detriment to AmerenUE, and are inequitable.

46 **Q. What is the purpose of your rehearing rebuttal testimony?**

47 **A.** The purpose of my rehearing rebuttal testimony is to address the Direct
48 Testimony on Rehearing of Staff witness Theresa Ebrey and the Rehearing Testimony of the
49 Attorney General witness David J. Effron.

50 **Q. Before addressing the testimonies of these witnesses, do you have any**
51 **corrections to the AmerenUE Illinois gas major projects post-test year capital additions**
52 **included in your AmerenUE Exhibit Nos. 35.0 and 35.2?**

53 **A.** Yes, I do. The expenditures of \$1,900,000 on the major projects post-test year
54 additions shown on AmerenUE Exhibit No. 35.2 inadvertently included some minor
55 expenditures for operating expenses. The total expenditures for the major projects post-test
56 year plant additions are correctly shown on ICC Staff Exhibit 19.0, Line 205 as
57 \$1,844,818.11.

58 **Q.** **Can you identify the specific issues you will address in this testimony?**

59 **A.** First I will address the four major errors concerning the AmerenUE Illinois
60 gas major projects post-test year capital additions through November 30, 2003, and the
61 AmerenUE Illinois gas total accumulated depreciation reserve increase from the end of the
62 test year through November 30, 2003, contained in the testimony of Staff witness Ebrey.

63 **Q.** **Please describe the first error in Ms. Ebrey's calculation of the**
64 **AmerenUE Illinois gas major projects post-test year capital additions.**

65 **A.** As described in Ms. Ebrey's testimony, ICC Staff Exhibit 19.0 starting at
66 Line 57, only charges to capital accounts 376 Mains and 380 Services related to the three
67 major projects were included in the Staff's calculation of the major projects post-test year
68 capital additions. There are charges to other capital accounts that Ms. Ebrey did not include.
69 These exclusions violate the scope of this rehearing. The Commission did not intend to limit
70 the consideration of post-test year capital additions to a select few accounts as Ms. Ebrey
71 proposes.

72 **Q.** **What capital account expenditures did Ms. Ebrey exclude?**

73 **A.** The majority of the excluded charges were to construction overhead accounts
74 324, 328 and 329. In all major capital projects there are charges to construction overhead
75 accounts per the FERC Uniform System of Accounts. Following accepted accounting

principles, the charges to the overhead accounts are allocated to the property unit capital accounts when the project is completed and transferred to plant in service. Therefore, it is not appropriate to exclude these accounts from the calculation of the cost of the project. The other capital account with some minor charges was Account 383 House Regulators. In a major project involving the replacement of mains and services, there are normally some minor capital charges for House Regulators. The original work orders for these three major projects included estimated amounts for Account 383. Thus, the Company did anticipate charges to accounts other than 376 and 380. At the time of the Company's original filing these capital expenditures were forecasted and well over 90% of the projects estimated capital expenditures to accounts other than the construction overheads were to Accounts 376 and 380. Thus, the Company included all of the estimated capital expenditures in Accounts 376 and 380 in its original filing. Therefore, it is inappropriate from an accounting perspective and in violation of the scope of the rehearing to exclude the charges to all accounts other than 376 and 380.

Q. What was the second error made by Ms. Ebrey in calculating the actual major projects post-test year capital expenditures?

A. Ms. Ebrey, starting on Line 70 of ICC Staff Exhibit 19.0, omitted the accounting reclassifications related to major project 11977.

Q. Please explain why these accounting reclassifications were necessary?

A. The purchase order for major project 11977 inadvertently assigned a portion of the expenditures for this project to operating expenses. While reviewing the charges to major project 11977 in October 2003, the Company District Manager noticed the inappropriate charges included in the operating expense account. The District Manager then

99 notified Plant Accounting of the error. Plant Accounting, after verifying that the charges
100 were proper capital charges, in November 2003 recorded the accounting entries to reclassify
101 these charges from operating expense to capital. It is inappropriate to arbitrarily ignore these
102 capital charges, as Ms. Ebrey recommends. These reclassified amounts should clearly be
103 included as part of major project 11977's capital expenditures.

104 **Q. Does Ms. Ebrey omit other items described as "Purchasing Rate",**
105 **"Payroll Distribution", "Transp JV DPT 3510", and "Tool App OH" that were also**
106 **reclassified to capital accounts?**

107 **A.** Yes, this is the third error made by Ms. Ebrey in calculating the major projects
108 post-test year capital expenditures. Starting on Line 101 of ICC Staff Exhibit 19.0,
109 Ms. Ebrey describes the other items that were reclassified and that she is omitting. These
110 other items are indirect apportionment items that follow labor charges. Since the labor
111 charges were reclassified in the accounting reclassification transfers, these items must also be
112 reclassified, and should be included in the project's capital expenditures.

113 **Q. Throughout her testimony Ms. Ebrey seems to challenge the property**
114 **accounts to which some of these items have been charged. How do you respond?**

115 **A.** The Company agrees that expenditures should be charged to the proper capital
116 accounts. Property Accounting does review all the charges to the project at the time these
117 projects' charges are converted into property units. At that time if the charges by capital
118 account are not correct, additional account reclassifications will be made. The scope of this
119 rehearing is to establish the major projects post-test year capital additions. All of these
120 charges to these major projects are capital charges and must be included.

121 **Q. What is the other adjustment made to the post-test year capital additions**
122 **by Ms. Ebrey?**

123 **A.**Ms. Ebrey has adjusted post-test year capital additions by subtracting
124 retirement associated with these major projects.

125 **Q. Does the scope for this rehearing include retirements?**

126 **A.**No, this rehearing is limited to consideration of the major projects post-test
127 year capital additions and the increase in the total accumulated depreciation reserve. It does
128 not include an adjustment to post-test year projects to reflect retirements.

129 **Q. Why is it not appropriate or equitable to reduce the major projects post-**
130 **test year capital additions by retirements?**

131 **A.**Since the Company is only allowed to include the major projects post-test year
132 capital additions and not all the post-test year capital additions, it would be inequitable to
133 reduce the portion of post-test year capital additions allowed by retirements and such an
134 adjustment is not contemplated by the Commission's regulations. In addition, in this
135 proceeding the Company is being required to reflect the increase in the total depreciation
136 reserve from the end of the test year through November 30, 2003. This total accumulated
137 depreciation reserve increase includes depreciation on all post-test year plant additions -- not
138 just the major project post-test year plant additions. The scope of the rehearing recognizes
139 this inequity, and thus dictates that the major projects post-test year plant additions be
140 included and not the related retirements.

141 **Q. What is the impact on the actual major projects post-test year capital**
142 **expenditures of all of the adjustments proposed by Ms. Ebrey?**

143 **A.** The actual major projects post-test year capital expenditures of \$1,845,000 are
144 reduced to \$1,273,000 by the adjustments proposed by Ms. Ebrey, which are shown on ICC
145 Staff Exhibit 19.0, Schedule 19.4 UE, Page 2 of 2, Column (E), Line 6. If these
146 inappropriate adjustments are accepted, AmerenUE will be improperly denied a return on
147 \$572,000 of major projects post-test year capital additions.

148 **Q.** **Has Ms. Ebrey correctly reflected her calculation of post-test year capital**
149 **additions and the increase in the depreciation reserve in the Rate Base on Rehearing**
150 **shown on ICC Staff Exhibit 19.0, Schedule 19.2 UE?**

151 **A.** No, on ICC Staff Exhibit 19.0, Schedule 19.2 UE, Column (F), Line 1 for
152 Gross Plant, Ms. Ebrey has reflected her major post-test year capital additions of \$1,273,000
153 reduced by the \$551,000 increase in the depreciation reserve. Thus, Ms. Ebrey has only
154 reflected \$722,000 of major projects post-test year capital additions. Then to compound the
155 error, on Line 2 Ms. Ebrey has not updated the total accumulated depreciation reserve to the
156 November 30, 2003 level. Instead she uses the pro forma June 30, 2002 (not even the actual
157 test year accumulated depreciation reserve) for the total accumulated depreciation reserve.
158 Per AmerenUE Exhibit No. 35.3, the actual total accumulated depreciation reserve at the end
159 of the test year (June 30, 2002) was \$15,456,000 while the total accumulated depreciation
160 reserve at November 30, 2003 was \$16,007,000. However, the amount reflected on ICC
161 Staff Exhibit 19.0, Schedule 19.2 UE, Column (F), Line 2 is \$16,026,000 for the total
162 accumulated depreciation reserve. The correct manner to reflect Ms. Ebrey's incorrect major
163 post-test year capital additions and change in total accumulated depreciation reserve at
164 November 30, 2003, would be to reflect on Line 1 the Staff's \$1,273,000 post-test year
165 additions and on Line 2 reflect the actual total accumulated depreciation reserve at

November 30, 2003, of \$16,007,000. The resulting change in net plant would be \$722,000. The Staff has understated the major projects post-test year capital additions and overstated the total accumulated depreciation reserve at November 30, 2003.

Q. What adjustments are required to the ICC Staff Exhibit 19.0, Schedules 19.1 UE through 19.4 UE to correct for the accounting errors as well as the inappropriate application of the scope of the rehearing?

A. Attached to this testimony is AmerenUE Exhibit No. 36.1. This exhibit shows the adjustments required to ICC Staff Exhibit 19.0, Schedules 19.1 UE through 19.4 UE to take into consideration not only the accounting errors but the proper scope of the rehearing.

Q. What is the impact on the AmerenUE rate increase reflecting the Staff's treatment of the major projects post-test year plant additions and the change in the total accumulated depreciation reserve through November 30, 2003?

A. As shown on ICC Staff Exhibit 19.0, Schedule 19.1 UE, Line 28, the rate increase per the Final Order was \$1,914,000 which is decreased to \$1,888,000, reflecting the Staff's inappropriate reflection of the scope of the rehearing.

Q. Is a rate reduction a reasonable outcome for a proceeding in which the Company is allowed to include major post-test year capital additions?

A. Obviously not. It would be an irrational decision for the Company to request a rehearing if the result is to reduce the amount of the rate increase. The Company believes that when the scope of the rehearing is reflected properly, an increase in the rate increase results from the inclusion of the major projects post-test year capital additions. The testimony submitted by the Attorney General witness Effron, though not following the scope of the rehearing completely, recommends a rate increase (AG Exhibit 1.2, Schedule DJE-2).

189 **Q.** Please explain why Attorney General witness Effron's testimony does not
190 reflect the scope of the rehearing.

191 **A.** As shown on AG Exhibit 1.2, Schedule DJE-1 and Schedule DJE-2,
192 Mr. Effron is reflecting the total increase in distribution plant in service and the total increase
193 in only the distribution accumulated depreciation reserve from the end of the test year
194 through November 30, 2003. This method does not reflect the scope of the rehearing.

195 **Q.** Does this conclude your rehearing rebuttal testimony?

196 **A.** Yes, it does.

AmerenUE
ICC Docket Nos. 02-0798/03-0008/03-0009 Consolidated
Adjustments Required to ICC Staff Exhibit 19.0, Schedules 19.1 UE Through 19.4 UE
To Reflect Scope of Rehearing
(In Thousands)

Line		Amount
1	Corrected Adjustment to Plant In Service on ICC Staff Exhibit 19.0, Schedule 19.2 UE	
2	Company's Filed Pro Forma Distribution Plant	\$ 29,007
3	Revised Allowed Pro Forma Distribution Plant (1)	28,538
4	Correct Reduction to Plant	<u>\$ (469)</u>
5	Adjustment to Plant Per Order in Docket No. 03-0009	<u>\$ (1,420)</u>
6	Correct Amount for ICC Staff Exhibit 19.0, Schedule 19.2 UE, Column (E), Line 1	<u>951</u>
7	Correct Gross Plant for ICC Staff Exhibit 19.0, Schedule 19.2 UE, Column (F), Line1	<u><u>\$ 31,619</u></u>
8	Corrected Adjustment to Accumulated Depreciation Reserve on ICC Staff Exhibit 19.0, Schedule 19.2 UE	
9	Company's Filed Pro Forma Total Accumulated Depreciation Reserve (Per AmerenUE Exhibit No. 5.5)	\$ (15,977)
10	Actual Total Accumulated Depreciation Reserve Balance at November 30, 2003.	(16,007)
11	Correct Increased Accumulated Depreciation Reserve	<u>\$ (30)</u>
12	Adjustment to Accumulated Depreciation Reserve Per Order In Docket No. 03-0009	<u>\$ (53)</u>
13	Correct Amount for ICC Staff Exhibit 19.0, Schedule 19.2 UE, Column (E), Line 2	<u>\$ 23</u>
14	Correct Accumulated Depreciation for ICC Staff Exhibit 19.0, Schedule 19.2 UE, Column (F), Line 2	<u><u>\$ (16,007)</u></u>
15	Corrected Adjustment to Depreciation Expense on ICC Staff Exhibit 19.0, Schedule 19.1 UE	
16	Pro Forma Adjustment to Depreciation Expense Per Order In Docket No. 03-0009 (\$-1,420*2.42%) (2)	\$ (34)
17	Correct Adjustment to Depreciation to Reflect Correct Adjustment to Plant (\$-469*2.42%)	(11)
18	Correct Adjustment to Depreciation on ICC Staff Exhibit 19.0, Schedule 19.1 UE, Column (J), Line 16	<u>\$ 23</u>
19	Correct Depreciation for ICC Staff Exhibit 19.0, Schedule 19.1 UE, Column (K), Line 16	<u><u>\$ 745</u></u>
20	Correct Adjustment to Interest Synchronization ICC Staff Exhibit 19.0, Schedule 19.3 UE	
21	Interest Synchronization Per Final Order	\$ 390
22	Correct Interest Synchronization to Reflect Correct Net Plant (\$15,612 * 2.61%)	416
23	Correct Adjustment to Interest Synchronization ICC Staff Exhibit 19.0, Schedule 19.3 UE, Line 5	<u>\$ 26</u>
24	Correct Adjustment to State Income Tax ICC Staff Exhibit 19.0, Schedule 19.3 UE, Line 7	\$ (2)
25	Correct Adjustment to Federal Income Tax ICC Staff Exhibit 19.0, Schedule 19.3 UE, Line 9	(9)
26	(1) Revised Pro Forma Distribution Plant	
27	Distribution Plant Per Books at June 30, 2002 Per AmerenUE Exhibit No. 5.3	\$ 26,693
28	Expenditures on Major Projects for July 1, 2002 through November 30, 2003	1,845
29	Revised Pro Forma Distribution Plant	<u><u>\$ 28,538</u></u>
30	(2) Depreciation Rate of 2.42% Per ICC Staff Exhibit 19.0, Schedule 19.4 UE, Page 1, Line 6	